

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2, 2020/2021

### BAC3654 – PROFESSIONAL ETHICS

(All sections / Groups)

11 MARCH 2021  
9.00 am – 12.00 pm  
(3 Hours)

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#### INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with **4 Questions** only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

Malique, a trained accountant and the finance director of Ayuedge, a multinational development firm, was recently jailed for 20 months. Malique profited from trading with the shares of his company when RM20 million government contract was awarded for the construction project which sent Ayuedge's share price soaring in value. Using his mother's name to avoid detection, Malique periodically bought 200,000 units Ayuedge shares in small lots over the three-month timespan before the profitable agreement was finalised. The day after the government-financed building contract was revealed, Malique sold all the shares when the share price had risen by 35%, thereby making a simple profit of RM500,000.

Malique was arrested because he directly profited from his inside experience at Ayuedge, exploiting his senior role in the business due to he was aware to all the deals leading up to the sale. At his trial, the judge recognised that Malique had shown sincere guilt for his crime, but the offense was so horrific that a custody sentence was warranted. He said that Malique used his role as director of finance to illegally take advantage of the information on the forthcoming contract and had shown a strong breach of the faith put in him. He had been inspired by individual greed and recognised at the time that his conduct was illegal. The judge advised him that insider trading was not a crime without victims and that his actions had a very negative effect on the overall public confidence in the credibility of the market.

A few months after the incident, Mr Akmal the chief executive officer (CEO) of the company has made an announcement to retire. For over 20 years under leadership of Mr Akmal, Ayuedge has been very successful in capturing market share and achieving much profitability. Mr Akmal has consulted an independent financial planner as part of his retirement preparation, who has advised that he exercise his share options before he retires because they will provide a tax-efficient capital gain that he can then save for his future. It is clearly in the best interest of Akmal to pick an exercise date when the share price is trading at its peak. Akmal was an enthusiastic when a new contract opportunity was raised by the sales director, which would clearly boost the company's share price this year. Unfortunately, the board was told by the finance director that its bank loan contained a stringent arrangement requiring the firm to retain an interest cover of four times its pre-tax profit. Although this loan requirement has already been fulfilled by Ayuedge, the finance director is concerned that the further working capital investment necessary for the proposed new contract presents a serious risk of violation of the loan agreement.

The CEO proposed that inventory should be priced differently in order to report a higher profit figure and thus raise the amount of interest coverage in order to fix this problem. He further indicated that this "small policy adjustment" would not be resisted by shareholders' because the value of the share price would likely increase.

**Continued...**

He also advised the board that he was sure that he could use his good working relationship with the auditors of Ayuedge engagement partner, to persuade the audit team during the forthcoming audit to agree on the higher inventory valuation.

(Adopted from ACCA)

**Required:**

- (a) Discuss how Malique' behaviour was a clear breach of the MIA by Laws which, as professional accountant, he should have strictly followed.  
(15 marks)
- (b) Explain the term conflict of interest in this context, and using information from the scenario, discuss how Akmal's behaviour presents a clear conflict of interest, stating **TWO (2)** actions he should take.  
(5 marks)
- (c) Explain the meaning of 'probity' when maintaining professional business relationships as described in the scenario and criticise the ethical behaviour of Akmal with respect to probity.  
(5 marks)

**[Total: 25 marks]**

**QUESTION 2**

Darwish works as a Chartered Accountant with Gemilang World Berhad, a firm listed on Bursa Malaysia. At the same time, he registers for two years' professional examination papers of ICAEW. His works basically deals with keeping financial records of the company. Besides that, he is also responsible in awarding large maintenance contracts services to local contractors. At one time, when his company was seeking for a new contractor for a new maintenance services, without inviting other tenders, he simply accepted a bid from one contractor who promised to pay him RM15,000 as a gift once the contract was awarded to them.

He justified his behavior as fair. "It is just a gift and fair to receive since the gift will be used to settle the ICAEW's fees. The knowledge gains from the study will indirectly benefit the firm," Darwish convinces himself. He believed he was entitled to get paid on his investment of time and effort in acquiring the international professional qualification.

**Required:**

- a) Briefly describe the **FIVE (5)** types of ethical threats in the MIA By-Laws.  
(10 marks)

**Continued...**

- b) Discuss how accepting excessive ‘gifts’ or ‘hospitality’ can give rise to some of these threats within this case.

(6 marks)

- c) Criticise Darwish’s beliefs and behavior, and explain why accepting the RM15,000 conflicts with his duty to uphold the public interest.

(9 marks)

**[Total: 25 marks]**

### **QUESTION 3**

Lovely Inc is an engineering-based firm. Recently, Mr Ghazali chief executive officer (CEO) were forced to resign over audit issues. Police alleged he ordered secret payments to a shell company to help Lovely win the ABC construction contract. Ghazali pleaded guilty to helping a public servant commit breach of trust. Lovely’s CEO at that time had authorised undocumented payments to unknown “agents” even though the chief financial officer and head of the international division opposed those payments. The board granted the CEO the usual payout, because it considered his actions reasonable (i.e., the payments avoided litigation, even though to unknown parties).

Another Lovely executive, Mr A. Zaibi also admitted in engaging RM22.5 million in construction contract to help Lovely win the contract. He pleaded guilty to one charge of using a forged document. He explained that Lovely had a corporate culture where it was common practice to do all that was necessary, including the payment of ‘commissions’ and other benefits to obtain contracts. He also argued that he was under pressure to engage in these illegal activities because the executive above him said that he had to follow their orders to satisfy their expectations. In fact, a few former Lovely’s executives have since tried to sue the company for wrongful dismissal on the grounds that illegal activities were required by the company to keep their jobs. Based on these incidents, it can be concluded that the company values were far from honest or moral. Lovely employees had moral sensitivity towards their criminal actions, yet they still gave a preference to money over any ethical workplace code of conduct. They exonerated each other by saying that it was just a part of the company’s culture or values, which made it hard for them to not to engage. Lovely’s employees left their personal values at the door and violating ethical and legal principles daily because it was the norm. This is where their values lacked moral intensity, as they did not question the ethical weight of their actions.

It clearly shows how company culture really did affect the workplace, as several executives did try to come forward, but were wrongfully dismissed, lost out on promotions, or were blatantly ignored. In one case, the Lovely’s board received an anonymous internal letter of the bribery activities taking place, but they only “took note” of it.

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**Required:**

- a) Explain **FOUR (4)** actions what the Board of Directors can do to make sure that the company's policies and procedure are adequate to ensure ethical and legal conduct by its employees.  
(8 marks)
- b) Mr. Ghazali and Mr. A. Zaibi were not demonstrating strong ethical leadership. Discuss **FIVE (5)** suggestions on how a firm can improve its ethical tone at the top.  
(10 marks)
- c) Explain why whistleblowing is important to the organisation and recommend **FOUR (4)** actions that can be implemented by the organisation to protect whistleblowers.  
(7 marks)

**[Total: 25 marks]**

**QUESTION 4**

- a) The debacles of Enron, Arthur Andersen and WorldCom have influenced the ethics environment of professional accountants. Discuss the impacts of professional accountants' role of conduct and accounting firms' governance.  
(16 marks)
- b) Explain the principle of professional competence and due care relevant to a professional accountant and provide **THREE (3)** ways a professional accountant can comply to the said principle.  
(9 marks)

**[Total: 25 marks]**

**End of paper**